

CITY OF NORTH BEND
King County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. The City Should Comply With Statutory Bid Law Requirements

In March 1994, without a formal call for bids, the city entered into a lease-purchase agreement in the amount of \$14,881 providing for the acquisition of a pickup truck.

In August 1993, the city awarded a contract in the amount of \$598,342 for the 1993 Street Improvement Project. Of this amount, \$236,051 represents repairs and improvements to North Bend Way which did not include luminaries. On August 16, 1994, without a formal call for bids, the city entered into an agreement in the amount of \$57,782 with this contractor for the installation of luminaries, pavers, trees, and rounding the ends of the traffic islands along North Bend Way. This work was completed in December 1994 and the contractor was paid in full in January 1995.

RCW 35A.40.210 provides that RCW 35.23.352 shall govern public work or improvement contracts or purchases for code cities under twenty thousand.

RCW 35.23.352 states in part:

(6) Any purchase of supplies, material, equipment, except for public work or improvement, where the cost thereof exceeds seven thousand five hundred dollars shall be made upon call for bids . . .

(8) For advertisement and formal sealed bidding to be dispensed with as to purchases between seven thousand five hundred and fifteen thousand dollars, the council . . . must authorize by resolution, use of the uniform procedure provided in RCW 39.04.190.

Section 3.28.060 of the North Bend Municipal Code states in part:

Where the city is in need of supplies, material, equipment or services, except for public work or improvements, and the estimated cost is greater than two thousand dollars (\$2,000) but less than four thousand dollars (\$4,000), the city administrator is authorized to obtain telephone quotations from responsible vendors

Further, RCW 35.23.352 (1) states in part that a city:

. . . may construct any public works . . . without calling for bids therefor whenever the estimated cost of the work or improvement . . . will not exceed the sum of thirty thousand dollars if more than one craft or trade is involved with the public works . . .

Whenever the cost of the public work or improvement . . . will exceed

these figures, the same shall be done by contract. All such contracts shall be let at public bidding upon publication of notice calling for sealed bids upon the work.

The acquisition of the truck without a call for public bids was caused by the absence of adequate policies and procedures. The city did not call for bids for additional work performed on North Bend Way to prevent delays in project completion.

Without calling for competitive bids, the city cannot be assured that it received the best possible price. In addition, other firms were not given the opportunity to bid.

We recommend city officials develop policies and procedures designed to ensure state and city competitive bidding requirements are met.

2. City Officials Should Ensure Revenues Are Collected In Accordance With Agreements

In April 1993, the city contracted with an independent contractor to provide professional management and operation of the city's concessions building located at the North Bend Athletic Complex facility. The contractor started business on May 11, 1993.

Section 8 of this agreement states in part:

The Concessionaire will furnish the city monthly figures as to his gross sales, and pay the City ten percent (10%) of this amount. Amounts collected as State Sales Tax are not to be included in gross receipts. Said percentage payment of gross receipts shall be paid to the City . . . on or before the fifteenth (15th) day of each month.

We noted that the contractor did not remit the city's portion of the concession sales or provide monthly figures for gross sales. Based on our review of business and occupation tax returns filed with the city, we determined that the city should have collected \$1,821 from the contractor for revenues reported from May 11, 1993, through December 31, 1994. The contractor canceled his license effective January 1, 1995, and subsequently filed for bankruptcy.

The failure to collect the city's share of concession sales revenues resulted in a probable loss of public funds in the amount of \$1,821.

We recommend city officials establish policies and procedures designed to ensure that revenues are collected by the city in accordance with agreements.

3. Internal Controls Over Rates And Usage Of Playfields Should Be Strengthened And The City Should Comply With Related Statutory Requirements

On February 27, 1992, the city entered into an interlocal agreement with the Snoqualmie Valley School District providing for the operation and maintenance of the district's seven baseball playfields.

Our documentation, evaluation and tests of the control structure disclosed the following issues:

- a. The city council did not establish formal policies and procedures governing rates and usage of the playfields. We noted that the city council had not delegated its authority for establishing playfield usage fees. In April 1992, the city administrator formalized the current fee schedule for tournament and league play through an executive order.
- b. The building department scheduled playfield usage through use of a calendar rather than official prenumbered registration forms.
- c. Typically, customers were required to pay for field usage at the conclusion of tournament or league play. The city did not require a deposit for field usage or maintain appropriate receivable records establishing amount due from customers. Customers remitted payment directly to the finance department; however, finance was unable to effectively verify all amounts due were charged and collected.

These weaknesses in the control structure could impair the city's ability to prevent or detect errors or irregularities in a timely manner. Our tests disclosed that the city did not collect field usage revenues from a not-for-profit customer during 1994 resulting in an estimated \$4,000 loss of public funds. We were unable to determine if this customer was specifically exempted from the fees or if this was an oversight.

RCW 35.21.020 states in part:

Any city . . . acting through its council . . . shall have the power to acquire by donation, purchase . . . athletic and recreation fields . . . and to use or let the same for such public and private purposes for such compensation and rental and upon such conditions as its council . . . shall from time to time prescribe.

We noted that playfield usage rates were not established by the city council.

Article VIII, Section 7 of the *Constitution of the State of Washington* states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

The city council did not adopt a resolution or ordinance specifically exempting this customer for which the city did not collect revenues during 1994. This represents an unconstitutional gift of public funds.

We recommend the city council establish formal policies and procedures governing rates and usage of the playfields.

We further recommend the city use official prenumbered registration forms for all playfield usage. A copy of the completed form should be remitted to the finance department and compared to actual customer payment.

We further recommend city officials attempt to collect moneys owed from the customer.

4. The City Should Comply With State And City Requirements Governing Employee Business Expenses

Our examination of employee business expenses disclosed the following issues:

- a. During our prior year audit, we determined that the city council had not adopted an ordinance or resolution establishing comprehensive rules and regulations for reimbursement of employee travel expenses as prescribed by the State Auditor's Office. The ordinance or resolution should discuss the municipal policy on charging expenses to the municipality and it should prohibit reimbursement for personal expenses and entertainment. As of the last day of field work (August 18, 1995), the city council still had not adopted such a policy.
- b. The city maintained one gasoline debit card and two or three gasoline credit cards (we were unable to effectively establish the exact number). The city did not maintain a central log establishing the total number, current assignment or usage of these cards. We noted that one of the credit cards was maintained in the glove box of an unmarked city vehicle and another credit card was "hidden" with the debit card in the public works building. Accordingly, access to these cards was not controlled.

Vehicle usage records were either nonexistent or were not used in a consistent manner. In addition, the vehicle license numbers were not recorded on the credit card slips.

RCW 42.24.090 states in part:

All claims authorized under this section shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by the state auditor.

These conditions increase the likelihood that public funds may be used for personal purposes and not be reimbursed in a timely manner.

- c. Our examination of city owned cellular phone charges disclosed that on November 1, 1994, the city council adopted Resolution 686 establishing a \$125 per department limit on monthly cellular phone charges. The city administrator exceeded this limit on six occasions accumulating a total of \$448.79 in excess charges through the July 5, 1995, vendor closing date. These charges had not been paid by the city as of the last day of field work (August 18, 1995).

Article VIII Section 7 of the *Constitution of the State of Washington* states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

Because the city is ultimately liable for the unpaid cellular phone charges, incurring expenditures in excess of authorized limits represents an unconstitutional gift of public funds.

We recommend:

- a. The city council adopt an ordinance or resolution establishing comprehensive rules and regulations for reimbursement of employee travel expenses.
- b. City officials establish a central log establishing the total number, current assignment or usage of gasoline credit and debit cards.
- c. The city council amend the cellular phone policy such that the city is not liable for excessive or personal calls.

5. Equipment Rental Fund And Equipment Rental Replacement Fund Charges Should Be Based On Actual Costs

The city council established the Equipment Rental Fund to charge user funds for vehicle maintenance and operating costs and the Equipment Replacement Fund for the accumulation of resources for the acquisition of new city vehicles.

During 1994 the city transferred \$91,884 in total from the City Streets, Water Revenue, Sewer Revenue, Sanitation, and Parks Funds to the Equipment Rental Fund to cover vehicle repairs and maintenance costs. In addition, transfers to the Equipment Rental Replacement Fund during 1994 were comprised entirely of moneys from the Water Revenue and Sewer Revenue Funds in the respective amounts of \$28,000 and \$2,500.

RCW 35.21.088 states in part:

There shall be paid monthly into the fund out of moneys available to the department using any equipment, materials, and/or supplies, which have not been purchased by that department for its own use and out of its own funds, reasonable rental charges fixed by the legislative authority of the city or town, and moneys in the fund shall be retained there from year to year so long as the legislative authority of the city or town desires to do so.

The amounts charged by the Equipment Rental Fund and the Equipment Replacement Fund were not based on a study of actual costs. The Equipment Replacement Fund is used for the acquisition of all city vehicles; however, during 1994 the city only transferred moneys from the Water Revenue and Sewer Revenue Funds into this fund.

As no study of the actual costs was made, we were unable to determine whether the city is over or under charging user funds for costs incurred by the Equipment Rental or Equipment Replacement funds.

We recommend equipment rental charges be based on a study of costs actually incurred by the Equipment Rental and Equipment Replacement Funds.

6. Fund Cash Accounts Should Not Be Overdrawn

Our audit disclosed multiple instances whereby the General, City Streets, Downtown Revitalization, Parks, Public Works Trust - Road Improvements, Public Works Trust - North Bend Blvd., and the Equipment Rental Funds had significant cash overdrafts during 1994.

Negative cash balances are indicative of unrecorded interfund loans, as other funds must cover the overdraft, and results in one fund benefiting at the expense of another fund.

RCW 43.09.210 states in part:

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

These conditions were caused by a lack of adequate monitoring of cash flow requirements in the city's funds.

We recommend city officials adequately monitor cash requirements to ensure that fund cash balances are not overdrawn

7. Vouchers Should Be Certified And Approved For Payment In Accordance With Statutory Requirements

Our documentation, evaluation, and tests of the control structure disclosed the following compliance issues:

- a. Vouchers were certified by the city treasurer and two members of the city council prior to approval by the full council. The city council had not officially appointed the city treasurer as the auditing officer.
- b. We noted payroll warrants and occasional claims warrants were issued prior to approval by the city council. We determined that the city council had not adopted appropriate policies and procedures authorizing this practice.

RCW 42.24.080 states in part:

All claims presented against any . . . city . . . by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision.

RCW 42.24.180 states in part:

In order to expedite the payment of claims, the legislative body of any taxing district . . . may authorize the issuance of warrants or checks in payment of claims . . . before the legislative body has acted to approve the claims . . . However, all of the following conditions shall be met before the payment:

- (1) The auditing officer and the officer designated to sign the checks or warrants shall each be required to furnish an official bond for the faithful discharge of his or her duties in an amount determined by the legislative body but not less than fifty thousand dollars;

Since the city council has not officially appointed an auditing officer, the city does not have the authority to issue warrants prior to approval by the city council.

City officials were unaware of these statutory requirements.

We recommend the city council adopt a resolution or ordinance officially appointing an auditing officer and, if so desired, adopt appropriate policies and procedures authorizing the issuing of warrants before council approval.

8. Contractor Retainage Withheld Under Public Works Contracts Should Be Handled In Accordance With Statutory Requirements

During our review of the E.J. Roberts Park and the South Fork Signalization projects, we noted that contractor retainage was not held by an external escrow agent, held in a separate bank account, or segregated within the general ledger system.

RCW 60.28.011 states in part:

- (1) Public improvement contracts shall provide, and public bodies shall reserve, a contract retainage not to exceed five percent of the moneys earned by the contractor as a trust fund for the protection and payment of: (a) The claims of any person arising under the contract; and (b) the state with respect to taxes imposed pursuant to Title 82 RCW which may be due from such contractor . . .
- (4) The moneys reserved by a public body under the provisions of a public improvement contract, at the option of the contractor, shall be:
 - (a) Retained in a fund by the public body;
 - (b) Deposited by the public body in an interest bearing account in a bank, mutual savings bank, or savings and loan association. Interest on moneys reserved by a public body under the provision of a public improvement contract shall be paid to the contractor;
 - (c) Placed in escrow with a bank or trust company by the public body.

As a result, contractors might not receive interest earnings that may have been generated from amounts withheld for retainage.

These conditions were caused by lack of familiarity with statutory requirements governing the handling of retainage.

We recommend city officials establish policies and procedures designed to ensure that retainage is held in accordance with state law.

9. Internal Controls Should Be Strengthened

Our documentation, evaluation, and tests of the control structure disclosed the following material weaknesses:

a. Cash Receipts

- (1) The city receipted customer utility payments through a cash register. We noted that all customer payments were entered as "cash" resulting in the inability to agree composition of deposit per the deposit slip to the cash register tape.
- (2) During our cash count performed on July 14, 1995, we noted the following:
 - (a) One utility customer cash payment in the amount of \$30.05 receipted on July 13, 1994, was not entered into the cash register.
 - (b) Eighteen checks dated between June 23, 1995, and July 13, 1995, in the total amount of \$4,041.50, for which treasurer's receipts were not completed.
- (3) We noted the following instances whereby moneys receipted at the building department were not remitted to the finance department intact or in a timely manner:
 - (a) Our July 14, 1995, cash count disclosed three checks dated April 7, 13, and 19, 1995, in the total amount of \$3,307.43 which were not remitted to the finance department.
 - (b) Our review of April 1994 treasurer's receipts disclosed two checks dated February 28, 1994, and April 14, 1994, totaling \$2,474.58 which were not remitted to the finance department until April 21, 1994.

These weaknesses in the control structure could impair the city's ability to prevent or detect errors or irregularities in a timely manner. Because of the nature of the matters identified above, we consider them to be material weaknesses.

We recommend:

- (1) Mode of payment for cash register receipts be entered into the cash register.
- (2) Moneys be deposited intact and in a timely manner.
- (3) Receipts be completed in a timely manner.

b. Utility Billing And Cash Handling

- (1) There was a lack of proper segregation of duties. The utility billing clerk performed the following functions:
 - (a) Entered water consumption per meter books into the computer billing system and processed customer account billings.

- (b) Receipted customer payments and posted them to the utility billing system.
 - (c) Balanced customer payments to the utility billing stubs, cash register tapes, and the utility billing cash receipt reports. An employee independent of the utility billing and related cash receipting function, subsequently balanced cash receipts to the cash register tape and the utility billing stubs but not to the cash receipt report.
 - (d) Completed the utility adjustment forms and posted customer account adjustments to the utility billing system. These forms were not signed by an employee independent of the utility billing and related cash receipting functions.
 - (e) Established repayment arrangements for delinquent accounts. These arrangements were not in writing nor were they officially approved by an employee independent of the utility billing and related cash receipting functions.
 - (f) Generated and reviewed the billing journal, receipts journal, non-billed and various other utility billing system reports. These reports were not reviewed on a regular basis by employees independent of utility billing and related cash receipting functions.
- (2) Utilities collections were not deposited in the bank intact or in a timely manner. Utility revenues were segregated from non-utility revenues and were deposited in the bank once a week. The remaining revenues were deposited on a more frequent basis.
 - (3) Our review of seven credit customer account adjustments processed during 1994 disclosed six instances whereby justification or support for adjustment was not indicated on the utility adjustment form.

Section 13.40.070 of the North Bend Municipal Code establishes a \$10 fee for delinquent accounts and a \$75 fee for reconnection of water services.

Our review of these account adjustments disclosed one instance whereby a \$50 credit was applied against a customer's reconnection fee and another instance whereby the reconnection fee was waived. We also noted an instance whereby a \$10 delinquency fee was waived.

These weaknesses in the control structure could impair the city's ability to prevent or detect errors or irregularities in a timely manner. Because of the nature of the matters identified above, we consider them to be material weaknesses.

We recommend city officials:

- (1) Design policies and procedures providing for a proper segregation of duties between access to utility customer payments and control over the related accounting records.
- (2) Design policies and procedures governing customer account adjustments ensuring such adjustments are properly authorized and supported.

- (3) Ensure bank deposits are made intact and in a timely manner.
- (4) Ensure all utility repayment arrangements are properly authorized and evidenced by written agreements with the customer.

c. Personnel and Payroll

- (1) The city did not have comprehensive personnel policies and procedures. In June 1991, the city established a draft policy; however, this policy was not adopted by the city council.
- (2) Time sheet or equivalent records establishing employee vacation and sick leave claimed were not prepared for the city administrator or, effective July 1994, the department directors, nor was such leave recorded in the payroll processing system or appropriate leave records.

Similarly, compensatory time off was not formally recorded in the payroll processing system.

This condition increases the likelihood of errors or irregularities whereby employee leave or compensatory time off is compensated in excess of available leave balances. In addition, the city could be liable for an unclaimed vacation leave or compensatory time off at termination of employee's employment.

Because of the nature of the matters identified above, we consider them to be material weaknesses.

We recommend city officials adopt comprehensive personnel and payroll policies and procedures establishing, at a minimum, the following:

- (1) Authority, procedures, and documentation requirements by which new positions are created and employees hired.
- (2) Classification of all city positions as either exempt or non-exempt.
- (3) Requirement that timesheets or equivalent records be used to establish leave or compensatory time off claimed for all employees including those in exempt positions.
- (4) Update payroll system records reflecting leave taken and compensatory time off earned by the city administrator and department directors.